UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 000-26408

Wayside Technology Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3136104**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4 Industrial Way West, Suite 300, Eatontown, New Jersey 07724
(Address of principal executive offices)

(732) 389-8950
Registrant's Telephone Number

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Check One:

Large Accelerated Filer ☐	Accelerated Filer ☒
	Smaller Reporting Company ☐
Non-Accelerated Filer ☐	Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 4,481,864 outstanding shares of common stock, par value $.01 per share, ("Common Stock") as of November 5, 2017, not including 803,036 shares classified as treasury stock.

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Wayside Technology Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Amounts in thousands, except share and per share amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,065	$ 13,524
Accounts receivable, net of allowances of $2,641 and $2,293, respectively	63,683	83,317
Inventory, net	2,403	2,324
Vendor prepayments	7,471	—
Prepaid expenses and other current assets	788	948
Total current assets	78,410	100,113
Equipment and leasehold improvements, net	1,924	1,937
Accounts receivable-long-term, net	10,243	11,119
Other assets	204	113
Deferred income taxes	235	416
	$ 91,016	$ 113,698
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 50,922	$ 76,087
Revolving credit facility	2,000	—
Total current liabilities	52,922	76,087
Commitments and Contingencies		
Stockholders' equity:		
Common Stock, $.01 par value; 10,000,000 shares authorized; 5,284,500 shares issued; 4,481,964 and 4,555,434 shares outstanding, respectively	53	53
Additional paid-in capital	30,694	30,683
Treasury stock, at cost, 802,536 and 729,066 shares, respectively	(13,855)	(12,029)
Retained earnings	22,152	20,515
Accumulated other comprehensive loss	(950)	(1,611)
Total stockholders' equity	38,094	37,611
	$ 91,016	$ 113,698

The accompanying notes are an integral part of these condensed consolidated financial statements.

Wayside Technology Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(Unaudited)
(Amounts in thousands, except per share data)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016	Three months ended September 30, 2017	Three months ended September 30, 2016
Net sales	$ 322,423	$ 298,167	$ 106,646	$ 99,586
Cost of sales	302,848	278,842	100,403	93,214
Gross profit	19,575	19,325	6,243	6,372
Selling, general, and administrative expenses	14,261	13,570	4,451	4,351
Income from operations	5,314	5,755	1,792	2,021
Other income:				
Interest, net	466	183	145	58
Foreign currency transaction gain (loss)	22	(1)	73	3
Income before provision for income taxes	5,802	5,937	2,010	2,082
Provision for income taxes	1,867	2,008	669	704
Net income	$ 3,935	$ 3,929	$ 1,341	$ 1,378
Income per common share-Basic (Restated) Notes 1 and 9	$ 0.87	$ 0.83	$ 0.30	$ 0.29
Income per common share-Diluted (Restated) Notes 1 and 9	$ 0.87	$ 0.83	$ 0.30	$ 0.29
Weighted average common shares outstanding — Basic (Restated) Notes 1 and 9	4,303	4,537	4,283	4,507
Weighted average common shares outstanding — Diluted (Restated) Notes 1and 9	4,303	4,537	4,283	4,507
Dividends paid per common share	$ 0.51	$ 0.51	$ 0.17	$ 0.17

The accompanying notes are an integral part of these condensed consolidated financial statements.

Wayside Technology Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(Amounts in thousands)

	Nine months ended September 30,		Three months ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income	$ 3,935	$ 3,929	$ 1,341	$ 1,378
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	661	(60)	274	(130)
Other comprehensive income (loss)	661	(60)	274	(130)
Comprehensive income	$ 4,596	$ 3,869	$ 1,615	$ 1,248

The accompanying notes are an integral part of these condensed consolidated financial statements.

Wayside Technology Group, Inc. and Subsidiaries
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)
(Amounts in thousands, except share amounts)

	Common Stock		Additional Paid-In	Treasury		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Shares	Amount	Earnings	(loss) income	Total
Balance at January 1, 2017	5,284,500	$ 53	$ 30,683	729,066	$ (12,029)	$ 20,515	$ (1,611)	$ 37,611
Net income	—	—	—	—	—	3,935	—	3,935
Translation adjustment	—	—	—	—	—	—	661	661
Dividends paid	—	—	—	—	—	(2,298)	—	(2,298)
Share-based compensation expense	—	—	1,026	—	—	—	—	1,026
Restricted stock grants (net of forfeitures)	—	—	(1,015)	(83,440)	1,015	—	—	—
Treasury shares repurchased	—	—	—	156,910	(2,841)	—	—	(2,841)
Balance at September 30, 2017	5,284,500	$ 53	$ 30,694	802,536	$ (13,855)	$ 22,152	$ (950)	$ 38,094

The accompanying notes are an integral part of these condensed consolidated financial statements.

Wayside Technology Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Amounts in thousands)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flows from operating activities		
Net income	$ 3,935	$ 3,929
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	359	192
Deferred income tax expense	181	32
Share-based compensation expense	1,026	1,168
Benefit for doubtful accounts receivable	(95)	(57)
Changes in operating assets and liabilities:		
Accounts receivable	21,101	(2,271)
Inventory	(69)	62
Prepaid expenses and other current assets	169	(204)
Vendor prepayments	(7,471)	—
Accounts payable and accrued expenses	(25,405)	1,312
Other assets	(96)	(45)
Net cash (used in) provided by operating activities	(6,365)	4,118
Cash flows used in investing activities		
Purchase of equipment and leasehold improvements	(339)	(779)
Net cash used in investing activities	(339)	(779)
Cash flows used in financing activities		
Purchase of treasury stock	(2,841)	(3,612)
Tax benefit from share-based compensation	—	115
Dividends paid	(2,298)	(2,420)
Net borrowings under revolving credit facility	2,000	—
Net cash used in financing activities	(3,139)	(5,917)
Effect of foreign exchange rate on cash	384	(287)
Net decrease in cash and cash equivalents	(9,459)	(2,865)
Cash and cash equivalents at beginning of period	13,524	23,823
Cash and cash equivalents at end of period	$ 4,065	$ 20,958
Supplementary disclosure of cash flow information:		
Income taxes paid	$ 1,944	$ 1,915
Leasehold improvements funded by tenant allowance	$ -	$ 840

The accompanying notes are an integral part of these condensed consolidated financial statements.

Wayside Technology Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2017
(Amounts in tables in thousands, except share and per share amounts)

1. **Basis of Presentation:**

The accompanying unaudited condensed consolidated financial statements of Wayside Technology Group, Inc. and its subsidiaries (collectively, the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete audited financial statements.

The preparation of these condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, intangible assets, income taxes, stock-based compensation, and contingencies and litigation. The Company bases its estimates on its historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the opinion of the Company's management, all adjustments that are of a normal recurring nature, considered necessary for fair presentation, have been included in the accompanying condensed consolidated financial statements. The Company's actual results may differ from these estimates under different assumptions or conditions. The unaudited condensed consolidated statements of earnings for the interim periods are not necessarily indicative of results for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the Securities Exchange Commission for the year ended December 31, 2016.

Earnings per share two class method

Earnings per share for the three and nine months ended September 30,2016 were recalculated and restated using the two class method and presented on a comparable basis with the same periods in 2017. In 2017 the Company determined it should be reporting earnings per share using the two-class method in accordance with ASC 260-10-45-60, which treats unvested restricted shares granted under our 2012 Stock-Based Compensation Plan that are entitled to receive non-forfeitable dividends as participating securities. While the Company has determined the impact of applying the two-class method does not have a material impact on previously issued financial statements, it is appropriate to recalculate and restate amounts presented on a comparative and consistent basis with current period results. The table below summarizes previously reported and restated amounts on a comparative basis. Footnote 9, Earnings Per Share provides more detail on the two-class method calculation.

	Nine months ended September 30, 2016	Three months ended September 30, 2016
As Previously Reported:		
Income per common share - Basic	$ 0.87	$ 0.31
Income per common share - Diluted	$ 0.86	$ 0.31
Weighted average common shares outstanding - Basic	4,537	4,507
Weighted average common shares outstanding - Diluted	4,548	4,518
As Restated:		
Income per common share - Basic	$ 0.83	$ 0.29
Income per common share - Diluted	$ 0.83	$ 0.29
Weighted average common shares outstanding – Basic	4,537	4,507
Weighted average common shares outstanding – Diluted	4,537	4,507

2. **Recently issued accounting standards:**

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. In March, April, May and December 2016, the FASB issued additional updates to the new accounting standard which provide supplemental adoption guidance and clarifications. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. Entities are permitted to transition to the new standard by either recasting prior periods or recognizing the cumulative effect as of the beginning of the period of adoption. The standard and related amendments will be effective for the Company for its annual reporting period beginning January 1, 2018, including interim periods within that reporting period. The Company has engaged with outside advisors to assist in its assessment and is in the process of finalizing its conclusions on several aspects of the standard including principal versus agent considerations, identification of performance obligations, the determination of when control of goods and services transfers to the Company's customer, which transition approach will be applied and the estimated impact it will have on our consolidated financial statements. While its assessment is still underway, the Company has determined that it may have material adjustments related to accounting for certain third-party maintenance, subscription and support agreements based on the assessment of whether the Company is acting as a principal or an agent in the transaction. Those adjustments, if any, are expected to impact whether the related sales are recognized on a gross or on a net basis, however such adjustments are not expected to have a material impact on net earnings. Our disclosures related to revenue recognition may be significantly different under the new accounting guidance. The Company has not yet determined which method of adoption it will adopt, pending the outcome of its final assessment.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)", ("ASU 2015-11"). Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The amendments in ASU 2015-11 require an entity to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for reporting periods beginning after December 15, 2016. We adopted ASU 2015-11 during the quarter ended March 31, 2017 and it did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Effective January 1, 2017, the Company adopted the provisions of ASU 2016-09 related to the recognition of excess tax benefits in the income statement and classification in the statement of cash flows were adopted on a prospective basis and the prior periods were not retrospectively adjusted. The Company has elected to account for forfeitures of share-based awards when they occur in determining compensation cost to be recognized each period. The adoption of ASU 2016-09 did not have a material impact on our consolidated financial statements

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance under FASB Accounting Standards Codification ("ASC") Topic 840, Leases, resulting in the creation of FASB ASC Topic 842, Leases. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. Leases will be classified as either finance or operating leases with classification affecting the pattern of expense recognition in the statement of earnings. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the potential impact of adopting ASU 2016-02 on its consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU No. 2016-13"). ASU No. 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU No. 2016-13 is effective for the Company in the first quarter of 2020, with early adoption permitted, and is to be applied using a modified retrospective approach. The Company is currently evaluating the potential effects of adopting the provisions of ASU No. 2016-13 on its consolidated financial statements, particularly its recognition for accounts receivable.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (“ASU 2016-15”) ASU 2016-15 which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The new standard will become effective for the Company beginning with the first quarter of 2018, with early adoption permitted. The adoption of this guidance will not have a material impact on the Company’s consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *“Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.”* This amendment is intended to improve accounting for the income tax consequences of intra-entity transfers of assets other than inventory. In accordance with this guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for the Company beginning in fiscal 2019. Early adoption is permitted in fiscal 2018 with modified retrospective application. The Company is continuing to evaluate the impact of the adoption of this guidance on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Scope of Modification Accounting”, to reduce diversity in practice and provide clarity regarding existing guidance in ASC 718, “Stock Compensation”. The amendments in this updated guidance clarify that an entity should apply modification accounting in response to a change in the terms and conditions of an entity’s share-based payment awards unless three newly specified criteria are met. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. The Company has evaluated the potential impacts of this updated guidance, and it does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities*, which improves the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. The amendments in this update also make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. ASU No. 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; the ASU allows for early adoption in any interim period after issuance of the update. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

3. **Foreign Currency Translation:**

Assets and liabilities of the Company's foreign subsidiaries have been translated at current exchange rates, and related sales and expenses have been translated at average rates of exchange in effect during the period. The sales from our foreign operations for the first nine months of 2017 were $34.9 million as compared to $31.6 million in the first nine months of 2016. The sales from our foreign operations for the third quarter of 2017 were $11.3 million as compared to $10.7 million in the third quarter of 2016.

4. **Comprehensive Income:**

Cumulative translation adjustments have been classified within accumulated other comprehensive loss, which is a separate component of stockholders' equity in accordance with FASB ASC Topic 220, "Comprehensive Income."

5. **Revenue Recognition:**

Revenue on product (software and hardware) and maintenance and subscription agreement sales are recognized once four criteria are met: (1) persuasive evidence of an arrangement exists, (2) the price is fixed and determinable, (3) delivery (software and hardware) or fulfillment (maintenance and subscription) has occurred, and (4) there is reasonable assurance of collection of the sales proceeds. Revenues from the sales of hardware products, software products and licenses, maintenance and subscription agreements are generally recognized on a gross basis upon delivery or fulfillment with the selling price to the customer recorded as sales and the acquisition cost of the product recorded as cost of sales.

Product delivery to customers occur in a variety of ways, including (i) as physical product shipped from the Company's warehouse, (ii) via drop-shipment by the vendor, or (iii) via electronic delivery for software licenses. The Company leverages drop-ship arrangements with many of its vendors and suppliers to deliver products to customers without having to physically hold the inventory at its warehouse, thereby increasing efficiency and reducing costs. The Company generally recognizes revenue for drop-ship arrangements on a gross basis. Furthermore, in such drop-ship arrangements, the Company negotiates price with the customer, pays the supplier directly for the product shipped and bears credit risk of collecting payment from its customers. Maintenance and subscription agreements allow customers to access software and obtain technical support directly from the software publisher and to upgrade, at no additional cost, to the latest technology if new applications are introduced by the software publisher during the period that the maintenance and subscription agreement is in effect. The Company generally serves as the principal with the customer and, therefore, recognizes the sale and cost of sale of the product upon receiving notification from the supplier that the product has shipped or the contract with respect to maintenance and subscription agreements has been fulfilled as the Company has no future performance obligation.

Sales are recorded net of discounts, rebates, and returns. Vendor rebates and price protection are recorded when earned as a reduction to cost of sales or merchandise inventory, as applicable.

Cooperative reimbursements from vendors, which are earned and available, are recorded in the period the related advertising expenditure is incurred. Cooperative reimbursements are recorded as a reduction of cost of sales in accordance with FASB ASC Topic 605-50 "Ac*counting by a Customer (including reseller) for Certain Consideration Received from a Vendor*."

Provisions for doubtful accounts including long-term accounts receivable and returns are estimated based on historical write offs, sales returns and credit memo analysis which are adjusted to actual on a periodic basis.

Accounts receivable-long-term result from product sales with extended payment terms that are discounted to their present values at the prevailing market rates at the time of the sale. In subsequent periods, the accounts receivable are increased to the amounts due and payable by the customers through the accretion of interest income on the unpaid accounts receivable due in future years. The amounts due under these long-term accounts receivable due within one year are reclassified to the current portion of accounts receivable and are shown net of reserves.

6. **Fair Value:**

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value at September 30, 2017 and December 31, 2016 because of the relative short maturity of these instruments. The Company's accounts receivable long-term is discounted to their present value at prevailing market rates at the date of sale so the balances approximate fair value.

7. **Balance Sheet Detail:**

Equipment and leasehold improvements consist of the following:

	September 30, 2017	December 31, 2016
Equipment	$ 1,972	$ 1,638
Leasehold improvements	1,330	1,317
	3,302	2,955
Less accumulated depreciation and amortization	(1,378)	(1,018)
	$ 1,924	$ 1,937

For the nine months ended September 30, 2017 and 2016, the Company recorded depreciation and amortization expense of $0.4 million and $0.2 million respectively, which is included in the Company's general and administrative expense.

Accounts payable and accrued expenses consist of the following

	September 30, 2017	December 31, 2016
Trade accounts payable	$ 47,876	$ 72,093
Accrued expenses	3,046	3,994
	$ 50,922	$ 76,087

8. **Credit Facility:**

On January 4, 2013, the Company entered into a $10,000,000 revolving credit facility (the "Credit Facility") with Citibank, N.A. ("Citibank") pursuant to a Business Loan Agreement (the "Loan Agreement"), Promissory Note (the "Note"), Commercial Security Agreements (the "Security Agreements") and Commercial Pledge Agreement (the "Pledge Agreement"). The Credit Facility matures on January 31, 2019, at which time the Company must pay this loan in one payment of any outstanding principal plus all accrued unpaid interest. The interest rate for any borrowings under the Credit Facility is subject to change from time to time based on the changes in an independent index which is the LIBOR Rate (the "Index"). If the Index becomes unavailable during the term of this loan, Citibank may designate a substitute index after notifying the Company. Interest on the unpaid principal balance of the Note will be calculated using a rate of 1.500 percentage points over the Index. The Credit Facility is secured by the assets of the Company.

Among other affirmative covenants set forth in the Loan Agreement, the Company must maintain (i) a ratio of Total Liabilities to Tangible Net Worth (each as defined in the Loan Agreement) of not greater than 2.50 to 1.00, to be tested quarterly and (ii) a minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of 2.00 to 1.00. Additionally, the Loan Agreement contains negative covenants related to, among other items, prohibitions against the creation of certain liens, engaging in any business activities substantially different than those currently engaged in by the Company, and paying dividends on the Company's stock other than (i) dividends payable in its stock and (ii) cash dividends in amounts and frequency consistent with past practice, without first securing the written consent of Citibank. The Company is in compliance with all covenants at September 30, 2017.

At September 30, 2017, the Company had $2.0 million of borrowings outstanding under the Credit Facility. The Company incurred interest expense of $0.1 million during the third quarter of 2017. The average interest rate for the quarter was approximately 2.74%.

9. **Earnings Per Share:**

Our basic and diluted earnings per share are computed using the two-class method. The two-class method is an earnings allocation that determines net income per share for each class of common stock and participating securities according to their participation rights in dividends and undistributed earnings or losses. Non-vested restricted stock awards that include non-forfeitable rights to dividends are considered participating securities. Per share amounts are computed by dividing net income available to common shareholders by the weighted average shares outstanding during each period. Diluted and basic earnings per share are the same because the restricted shares are the only potentially dilutive security.
A reconciliation of the numerators and denominators of the basic and diluted per share computations follows:

	Nine months ended September 30,		Three months ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$ 3,935	$ 3,929	$ 1,341	$ 1,378
Less distributed and undistributed income allocated to participating securities	179	171	57	58
Net Income Attributable to Common Shareholders	3,756	3,758	1,284	1,320
Denominator:				
Weighted average common shares (Basic)	4,303	4,537	4,283	4,507
Weighted average common shares including assumed conversions (Diluted)	4,303	4,537	4,283	4,507
Basic net income per share	$ 0.87	$ 0.83	$ 0.30	$ 0.29
Diluted net income per share	$ 0.87	$ 0.83	$ 0.30	$ 0.29

10. **Major Customers and Vendors:**

The Company had two major vendors that accounted for 27.0% and 14.1%, respectively, of total purchases during the nine months ended September 30, 2017, and 27.9% and 14.1% of total purchases for the three months ended September 30, 2017. The Company had two major vendors that accounted for 23.8% and 10.2%, respectively, of its total purchases during the nine months ended September 30, 2016, and 23.6%, and 10.5% of total net purchases for the three months ended September 30, 2016. The Company had two major customers that accounted for 22.5% and 19.3%, respectively, of its total net sales during the nine months ended September 30, 2017, and 24.4%, and 18.5% of total net sales for the three months ended September 30, 2017. These same customers accounted for 14.8% and 25.5%, respectively, of total net accounts receivable as of September 30, 2017. The Company had two major customers that accounted for 19.8% and 17.8%, respectively, of its total net sales during the nine months ended September 30, 2016, and 21.4%, and 17.5% of total net sales for the three months ended September 30, 2016.

The Company entered into a distribution agreement in July 2017, and made a nonrefundable prepayment of $8.0 million to be applied against any amounts due under this agreement. The amount will be recorded as a prepaid and will be reduced as purchases are made under the agreement.

11. **Income Tax:**

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Company has identified its federal consolidated tax return and its state tax return in New Jersey and its Canadian tax return as major tax jurisdictions. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

The effective tax rate for the nine and three months ended September 30, 2017 was 32.2% and 33.3%, respectively, compared to 33.8% for the same periods last year.

12. **Stockholders' Equity and Stock Based Compensation:**

The 2012 Stock-Based Compensation Plan (the "2012 Plan") authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses and other equity-based awards. The total number of shares of Common Stock initially available for award under the 2012 Plan was 600,000. As of September 30, 2017, the number of shares of Common stock available for future award grants to employees and directors under the 2012 Plan is 226,788.

During 2012, the Company granted a total of 92,000 shares of Restricted Stock to officers, directors, and employees. These shares of Restricted Stock vest over 20 equal quarterly installments. A total of 3,525 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During 2013, the Company granted a total of 56,500 shares of Restricted Stock to officers and employees. Included in these grants were 40,000 Restricted Shares granted to the Company's CEO in accordance with the satisfaction of certain performance criteria included in his compensation plan. These 40,000 Restricted Shares vest over 16 equal quarterly installments. The remaining grants of Restricted Stock vest over 20 equal quarterly installments. A total of 775 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During 2014, the Company granted a total of 98,689 shares of Restricted Stock to officers, directors and employees. These shares of Restricted Stock vest between one and twenty equal quarterly installments. A total of 34,487 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

During 2015, the Company granted a total of 44,000 shares of Restricted Stock to officers. These shares of Restricted Stock vest over sixteen equal quarterly installments. In 2015, a total of 4,465 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

During 2016, the Company granted a total of 171,252 shares of Restricted Stock to officers, directors, and employees. These shares of Restricted Stock vest between one and twenty equal quarterly installments. A total of 7,167 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

During 2017, the Company granted a total of 87,076 shares of Restricted Stock to officers and employees. These shares of Restricted Stock vest between eight and twenty equal quarterly installments. A total of 3,636 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

A summary of nonvested shares of Restricted Stock awards outstanding under the Company's the 2012 Plan as of September 30, 2017, and changes during the three months then ended is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2017	186,081	$ 15.58
Granted in 2017	87,076	18.25
Vested in 2017	(67,634)	15.18
Forfeited in 2017	(3,636)	16.49
Nonvested shares at September 30, 2017	201,887	$ 15.85

As of September 30, 2017, there is approximately $3.2 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.0 years.

For the nine months ended September 30, 2017 and 2016, the Company recognized share-based compensation cost of $1.0 million and $1.2 million respectively, which is included in the Company's general and administrative expense.

13. **Segment Information:**

FASB ASC Topic 280, "Segment Reporting," requires that public companies report profits and losses and certain other information on their "reportable operating segments" in their annual and interim financial statements. The internal organization used by the public company's Chief Operating Decision Maker (CODM) to assess performance and allocate resources determines the basis for reportable operating segments. The Company's CODM is the Chief Executive Officer.

The Company is organized into two reportable operating segments. The "Lifeboat Distribution" segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide. The "TechXtend" segment is a value-added reseller of software, hardware and services for corporations, government organizations and academic institutions in the United States and Canada.

As permitted by FASB ASC Topic 280, the Company has utilized the aggregation criteria in combining its operations in Canada with the domestic segments as the Canadian operations provide the same products and services to similar clients and are considered together when the Company's CODM decides how to allocate resources.

Segment income is based on segment revenue less the respective segment's cost of revenues as well as segment direct costs (including such items as payroll costs and payroll related costs, such as profit sharing, incentive awards and insurance) and excluding general and administrative expenses not attributed to an individual segment business unit. The Company only identifies accounts receivable and inventory by segment as shown below as "Selected Assets" by segment; it does not allocate its other assets, including capital expenditures by segment.

The following segment reporting information of the Company is provided:

	Nine months ended September 30,		Three months ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenue:				
Lifeboat Distribution	$ 300,344	$ 267,113	$ 100,188	$ 91,114
TechXtend	22,079	31,054	6,458	8,472
	322,423	298,167	106,646	99,586
Gross Profit:				
Lifeboat Distribution	$ 16,873	$ 16,139	$ 5,417	$ 5,440
TechXtend	2,702	3,186	826	932
	19,575	19,325	6,243	6,372
Direct Costs:				
Lifeboat Distribution	$ 6,142	$ 5,442	$ 1,866	$ 1,846
TechXtend	1,362	1,553	473	490
	7,504	6,995	2,339	2,336
Segment Income Before Taxes:				
Lifeboat Distribution	$ 10,731	$ 10,697	$ 3,551	$ 3,594
TechXtend	1,340	1,633	353	442
Segment Income Before Taxes	12,071	12,330	3,904	4,036
General and administrative	$ 6,757	$ 6,575	$ 2,112	$ 2,015
Interest, net	466	183	145	58
Foreign currency translation	22	(1)	73	3
Income before taxes	$ 5,802	$ 5,937	$ 2,010	$ 2,082

Selected Assets By Segment:	As of September 30, 2017	As of December 31, 2016
Lifeboat Distribution	$ 61,620	$ 64,558
TechXtend	22,180	32,202
Segment Select Assets	83,800	96,760
Corporate Assets	7,216	16,938
Total Assets	$ 91,016	$ 113,698

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of risk and uncertainties, including those set forth under the heading "Forward Looking Statements" and elsewhere in this report and those set forth in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes included in this report and the consolidated financial statements and related notes included in our 2016 Annual Report on Form 10-K.

Overview

We distribute software and hardware developed by others through resellers indirectly to customers worldwide. We also resell computer software and hardware developed by others and provide technical services directly to customers in the USA and Canada. In addition, we operate a sales branch in Europe to serve our customers in this region of the world. We offer an extensive line of products from leading publishers of software and tools for virtualization/cloud computing, security, networking, storage and infrastructure management, application lifecycle management and other technically sophisticated domains as well as computer hardware. We market these products through creative marketing communications, including our web sites, local and on-line seminars, webinars, social media, direct e-mail, and printed materials.

The Company is organized into two reportable operating segments. The "Lifeboat Distribution" segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide. The "TechXtend" segment is a value-added reseller of software, hardware and services for corporations, government organizations and academic institutions in the USA and Canada.

Factors Influencing Our Financial Results

We derive the majority of our net sales though the sale of third party software licenses, maintenance and service agreements. In our Lifeboat distribution segment, sales are impacted by the number of product lines we distribute, and sales penetration of those products into the reseller channel. In our TechXtend segment sales are generally driven by sales force effectiveness and success in providing superior customer service, competitive pricing, and flexible payment solutions to our customers. Our sales are also impacted by external factors such as levels of IT spending and customer demand for products we distribute.

We sell in a competitive environment where gross product margins have historically declined due to competition and changes in product mix towards products where no delivery of a physical product is required. To date, we have been able to implement cost efficiencies such as the use of drop shipments, electronic ordering ("EDI") and other capabilities to be able to operate our business profitably as gross margins have declined.

Selling general and administrative expenses are comprised mainly of employee salaries, commissions and other employee related expenses, facility costs, costs to maintain our IT infrastructure, public company compliance costs and professional fees. We monitor our level of accounts payable, inventory turnover and accounts receivable turnover which are measures of how efficiently we utilize capital in our business.

The Company's sales, gross profit and results of operations have fluctuated and are expected to continue to fluctuate on a quarterly basis as a result of a number of factors, including but not limited to: the condition of the software industry in general, shifts in demand for software products, pricing, level of extended payment terms sales transactions, industry shipments of new software products or upgrades, fluctuations in merchandise returns, adverse weather conditions that affect response, distribution or shipping, shifts in the timing of holidays and changes in the Company's product offerings. The Company's operating expenditures are based on sales forecasts. If sales do not meet expectations in any given quarter, operating results may be materially adversely affected.

Dividend Policy and Share Repurchase Program. Historically we have sought to return value to investors through the payment of quarterly dividends and share repurchases. Total dividends paid and shares repurchased were

$0.8 and $0.5 million for the quarter ended September 30, 2017, respectively, and $0.8 million and $1.7 million for the quarter ended September 30, 2016, respectively. The decrease in shares outstanding as a result of past repurchases has been a primary cause of increases in our earnings per share. The payment of future dividends and share repurchases is at the discretion of our Board of Directors and dependent on results of operations, projected capital requirements and other factors the Board of Directors may find relevant.

Stock Volatility. The technology sector of the United States stock markets is subject to substantial volatility. Numerous conditions which impact the technology sector or the stock market in general or the Company in particular, whether or not such events relate to or reflect upon the Company's operating performance, could adversely affect the market price of the Company's Common Stock. Furthermore, fluctuations in the Company's operating results, announcements regarding litigation, the loss of a significant vendor or customer, increased competition, reduced vendor incentives and trade credit, higher operating expenses, and other developments, could have a significant impact on the market price of our Common Stock.

Forward Looking Statements

This report includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Statements in this report regarding future events or conditions, including but not limited to statements regarding industry prospects and the Company's expected financial position, results of operations, business and financing plans, are forward-looking statements. These statements can be identified by forward-looking words such as "may," "will," "expect," "intend," "anticipate," "believe," "estimate," and "continue" or similar words.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Substantial risks and uncertainties unknown at this time could cause actual results to differ materially from those indicated by such forward-looking statements, including, but not limited to, the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, product mix, market conditions, competitive pricing pressures, contribution of key vendor relationships and support programs, including vendor rebates and discounts, as well as factors that affect the software industry in general and other factors generally. We strongly urge current and prospective investors to carefully consider the cautionary statements and risk factors contained in this report and our annual report on Form 10-K for the year ended December 31, 2016.

The Company operates in a rapidly changing business, and new risk factors emerge from time to time. Management cannot predict every risk factor, nor can it assess the impact, if any, of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements.

Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The statements concerning future sales, future gross profit margin and future selling and administrative expenses are forward looking statements involving certain risks and uncertainties such as availability of products, product mix, pricing pressures, market conditions and other factors, which could result in a fluctuation of sales below recent experience.

Financial Overview

Net sales increased 7%, or $7.1 million, to $106.7 million for the quarter ended September 30, 2017, compared to $99.6 million for the same period in 2016 as growth in our Lifeboat Distribution segment was offset by a decline in TechXtend due to quarterly variability in enterprise account sales. Gross profit decreased 2%, or $0.1 million, to $6.2 million for the quarter ended September 30, 2017, compared to $6.4 million in the prior year. Selling, general and administrative ("SG&A") expenses increased 2%, or $0.1 million, to $4.5 million for the quarter ended September 30, 2017, compared to $4.4 million in the same period last year. Net income decreased 3% to $1.3 million for the quarter ended September 30, 2017, compared to $1.4 million in the same period last year. Weighted average diluted shares outstanding decreased by 5% from the prior year, primarily due to the Company's shares repurchased. Income per share-diluted increased 2% to $0.30 for the quarter September 30, 2017, compared to $0.29 for the same period in 2016, partially due to lower net income offset by the decrease in weighted average diluted shares outstanding.

Critical Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements that have been prepared in accordance with US GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Revenues from the sales of hardware products, software products, licenses, maintenance and subscription agreements are generally recognized on a gross basis upon delivery or fulfillment, with the selling price to the customer recorded as sales and the acquisition cost of the product recorded as cost of sales.

On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, intangible assets, income taxes, stock-based compensation, contingencies and litigation.

The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Company believes the following critical accounting policies used in the preparation of its consolidated financial statements affect its more significant judgments and estimates.

Allowance for Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management determines the estimate of the allowance for uncollectible accounts receivable by considering a number of factors, including: historical experience, aging of the accounts receivable, and specific information obtained by the Company on the financial condition and the current creditworthiness of its customers. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. At the time of sale, we record an estimate for sales returns based on historical experience. If actual sales returns are greater than estimated by management, additional expense may be incurred.

Accounts Receivable – Long Term

The Company's accounts receivable long-term are discounted to their present value at prevailing market rates at the time of sale based on prevailing rates. In doing so, the Company considers competitive market rates and other factors.

Inventory Allowances

The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-offs may be required.

Income Taxes

The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance related to deferred tax assets. In the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

Share-Based Payments

Under the fair value recognition provision, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period. We record the impact of forfeitures when they occur. We review our valuation assumptions periodically and, as a result, we may change our valuation assumptions used to value stock based awards granted in future periods. Such changes may lead to a significant change in the expense we recognize in connection with share-based payments.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. In March, April, May and December 2016, the FASB issued additional updates to the new accounting standard which provide supplemental adoption guidance and clarifications. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. Entities are permitted to transition to the new standard by either recasting prior periods or recognizing the cumulative effect as of the beginning of the period of adoption. The standard and related amendments will be effective for the Company for its annual reporting period beginning January 1, 2018, including interim periods within that reporting period. The Company has engaged with outside advisors to assist in its assessment and is in the process of finalizing its conclusions on several aspects of the standard including principal versus agent considerations, identification of performance obligations, the determination of when control of goods and services transfers to the Company’s customer, which transition approach will be applied and the estimated impact it will have on our consolidated financial statements. While its assessment is still underway, the Company has determined that it may have material adjustments related to accounting for certain third-party maintenance, subscription and support agreements based on the assessment of whether the Company is acting as a principal or an agent in the transaction. Those adjustments, if any, are expected to impact whether the related sales are recognized on a gross or on a net basis, however such adjustments are not expected to have a material impact on net earnings. Our disclosures related to revenue recognition may be significantly different under the new accounting guidance. The Company has not yet determined which method of adoption it will adopt, pending the outcome of its final assessment.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)", ("ASU 2015-11"). Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The amendments in ASU 2015-11 require an entity to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for reporting periods beginning after December 15, 2016. We adopted ASU 2015-11 during the quarter ended March 31, 2017 and it did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Effective January 1, 2017, the Company adopted the provisions of ASU 2016-09 related to the recognition of excess tax benefits in the income statement and classification in the statement of cash flows were adopted on a prospective and the prior periods were not retrospectively adjusted. The Company has elected to account for forfeitures of share-based awards when they occur in determining compensation cost to be recognized each period. The adoption of ASU 2016-09 did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance under FASB Accounting Standards Codification ("ASC") Topic 840, Leases, resulting in the creation of FASB ASC Topic 842, Leases. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. Leases will be classified as either finance or operating leases with classification affecting the pattern of expense recognition in the statement of earnings. This ASU is effective for fiscal years, and interim periods within those years, beginning after

December 15, 2018. Early adoption is permitted. The Company is currently assessing the potential impact of adopting ASU 2016-02 on its consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU No. 2016-13"). ASU No. 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU No. 2016-13 is effective for the Company in the first quarter of 2020, with early adoption permitted, and is to be applied using a modified retrospective approach. The Company is currently evaluating the potential effects of adopting the provisions of ASU No. 2016-13 on its consolidated financial statements, particularly its recognition for accounts receivable.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows ("ASU 2016-15") ASU 2016-15 which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The new standard will become effective for the Company beginning with the first quarter of 2018, with early adoption permitted. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *"Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory."* This amendment is intended to improve accounting for the income tax consequences of intra-entity transfers of assets other than inventory. In accordance with this guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for the Company beginning in fiscal 2019. Early adoption is permitted in fiscal 2018 with modified retrospective application. The Company is continuing to evaluate the impact of the adoption of this guidance on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Scope of Modification Accounting", to reduce diversity in practice and provide clarity regarding existing guidance in ASC 718, "Stock Compensation". The amendments in this updated guidance clarify that an entity should apply modification accounting in response to a change in the terms and conditions of an entity's share-based payment awards unless three newly specified criteria are met. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. The Company has evaluated the potential impacts of this updated guidance, and it does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities*, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments in this update also make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. ASU No. 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; the ASU allows for early adoption in any interim period after issuance of the update. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

Results of Operations

The following table sets forth for the periods indicated certain financial information derived from the Company's unaudited condensed consolidated statements of earnings expressed as a percentage of net sales. This comparison of financial results is not necessarily indicative of future results:

	Nine months ended September 30,		Three months ended September 30,	
	2017	**2016**	**2017**	**2016**
Net sales	100.0 %	100.0 %	100.0 %	100 %
Cost of sales	93.9	93.5	94.1	93.6
Gross profit	6.1	6.5	5.9	6.4
Selling, general and administrative expenses	4.4	4.6	4.2	4.4
Income from operations	1.7	1.9	1.7	2.0
Other income	0.1	0.1	0.2	0.1
Income before income taxes	1.8	2.0	1.9	2.1
Income tax provision	0.6	0.7	0.6	0.7
Net income	1.2 %	1.3 %	1.3 %	1.4 %

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Net Sales

Net sales for the quarter ended September 30, 2017 increased 7%, or $7.1 million, to $106.6 million, compared to $99.6 million for the same period in 2016, as increased net sales in our Lifeboat Distribution segment were offset in part by decreased TechXtend sales resulting from variability in enterprise sales.

Lifeboat Distribution segment net sales for the quarter ended September 30, 2017 increased $9.1 million, or 10% to $100.2 million, compared to $91.1 million for the same period a year earlier. The increase was due primarily to growth in sales penetration for several of our more significant product lines, as well as the addition of several new product lines. The increases were partially offset by turnover in some vendor and customer accounts due to competitive bid situations. We operate in a competitive market in which some sales agreements are subject to periodic competitive bidding processes, resulting in fluctuations from year to year based on the outcome.

TechXtend segment net sales decreased $2.0 million or 24% to $6.5 million for the quarter ended September 30, 2017, compared to $8.5 million for the prior year. The decrease was primarily due to a decrease in large enterprise sales compared to the third quarter of 2016 which affects the comparability of results. Sales in our TechXtend segment may vary significantly from quarter to quarter based on the timing of IT spending decisions by our larger customers.

During the quarter ended September 30, 2017, we relied on two key customers for a total of 42.9% of our revenue. One major customer accounted for 24.4% and the other for 18.5%, of our total net sales during the three months ended September 30, 2017. These same customers accounted for 14.8% and 25.5%, of total net accounts receivable as of September 30, 2017.

Gross Profit

Gross profit for the quarter ended September 30, 2017 decreased 2% or $0.1 million, to $6.2 million, compared to $6.4 million for the same period in 2016. Lifeboat Distribution segment gross profit was approximately $5.5 million for the quarter ended September 30, 2017 and 2016. TechXtend segment gross profit decreased 11% to $0.8 million for the quarter ended September 30, 2017 compared to $0.9 million for the same period in the prior year. Gross profit decreased primarily due to lower sales in our TechXtend segment and competitive pressures on gross profit margins as discussed below mitigated by the impact of increased sales in our Lifeboat segment.

Gross profit margin (gross profit as a percentage of net sales) for the quarter ended September 30, 2017 was 5.9% compared to 6.4% for the same period in 2016. Lifeboat Distribution segment gross profit margin was 5.5% for the quarter ended September 30, 2017, compared to 6.0% for the same period in 2016. The decrease in gross profit margin for the Lifeboat Distribution segment was primarily caused by competitive pricing pressure and product mix. We operate in a competitive environment where the trend has been for gross profit margins to decline for the past several years, and may continue to decline. We attribute some of the decline to an increasing portion of our revenues being derived from the sale of licenses, maintenance and service agreements that are not associated with a physical product. While our gross profit margin has declined on these products, we have instituted operational efficiencies such as electronic ordering and distribution through the use of EDI and other automation that have increased our productivity and enabled us to maintain profitability. TechXtend segment gross profit margin for the quarter ended September 30, 2017 was 12.8% compared to 11.0% for the same period in 2016. The increase in gross profit margin was due to a decrease in sales of large enterprise licenses and related equipment which typically carry a lower gross profit margin, and lower incremental selling and administrative costs as a percentage of revenue, on large enterprise sales as compared to smaller account sales.

Vendor rebates and discounts for the quarter ended September 30, 2017 were $0.4 million compared to $0.5 million in the same quarter last year. Vendor rebates are dependent on reaching certain targets set by our vendors. The Company monitors vendor rebate levels, competitive pricing, and gross profit margins carefully. We anticipate that price competition in our market will continue in both of our business segments.

Selling, General and Administrative Expenses

SG&A expenses for the quarter ended September 30, 2017 increased $0.1 million, or 2%, to approximately $4.5 million compared to $4.4 million in the same period in 2016. The increase is primarily due to increased employee related expenses (salaries, and commissions) to support our growth. SG&A expenses were 4.2% of net sales for the quarter ended September 30, 2017, compared to 4.4% for the same period in 2016.

The Company expects that its SG&A expenses, as a percentage of net sales, may vary depending on changes in sales volume, as well as the levels of continuing investments in key growth initiatives. We plan to continue to expand our investment in information technology and marketing, while monitoring SG&A expenses closely.

Income Taxes

For the three months ended September 30, 2017, the Company recorded a provision for income taxes of $0.7 million or 33.3% of income, compared to $0.8 million or 33.8% of income for the same period in 2016. The decrease in the effective tax rate is primarily due to the change in tax effects related to share-based payments at settlement (or expiration) through the income statement due to the adoption of ASU 2016-09.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Net Sales

Net sales for the nine months ended September 30, 2017 increased 8%, or $24.3 million, to $322.4 million, compared to $298.2 million for the same period in 2016. Net sales increased in our Lifeboat Distribution segment and decreased in our TechXtend segment.

Lifeboat Distribution segment net sales for the nine months ended September 30, 2017 increased $33.2 million, or 12% to $300.3 million, compared to $267.1 million for the same period a year earlier. The increase was primarily due to growth in sales penetration for several of our more significant product lines, as well as the addition of several new product lines. The increases were partially offset by turnover in some vendor and customer accounts due to competitive bid situations. We operate in a competitive market in which some sales agreements are subject to periodic competitive bidding processes, resulting in fluctuations from year to year based on the outcome.

TechXtend segment net sales decreased $9.0 million or 29% to $22.1 million for the nine months ended September 30, 2017, compared to $31.1 million for the prior year. The decrease was due primarily to a large enterprise sale of approximately $6.6 million recorded in the second quarter of 2016 that affects comparability. Large enterprise sales tend to fluctuate from quarter to quarter based on the timing of customer purchasing decisions for IT projects.

During the nine months ended September 30, 2017, we relied on two key customers for a total of 41.8% of our revenue. One major customer accounted for 22.5% and the other for 19.3%, of our total net sales during the three months ended September 30, 2017. These same customers accounted for 14.8% and 25.5%, of total net accounts receivable as of September 30, 2017.

Gross Profit

Gross profit for the nine months ended September 30, 2017 increased 1% or $0.3 million, to $19.6 million, compared to $19.3 million for the same period in 2016. Lifeboat Distribution segment gross profit increased 5% to $16.9 million for the nine months ended September 30, 2017 compared to $16.1 million for the same period in the prior year. TechXtend segment gross profit decreased 15% to $2.7 million for the nine months ended September 30, 2017 compared to $3.2 million for the same period in the prior year. Gross profit decreased primarily due to lower sales in our TechXtend segment and competitive pressures on gross profit margins as discussed below, mitigated by the impact of increased sales in our Lifeboat segment.

Gross profit margin (gross profit as a percentage of net sales) for the nine months ended September 30, 2017 was 6.1% compared to 6.5% for the same period in 2016. Lifeboat Distribution segment gross profit margin was 5.6% for the nine months ended September 30, 2017, compared to 6.0% for the same period in 2016. The decrease in gross profit margin for the Lifeboat Distribution segment was caused primarily by competitive pricing pressure and product mix. We operate in a competitive environment where the trend has been for gross profit margins to decline for the past several years and may continue to decline in the future. We attribute some of the decline to an increasing portion of our revenues being derived from the sale of licenses, maintenance and service agreements that are not associated with a physical product. While our gross profit margin has declined on these products, we have instituted operational efficiencies such as electronic ordering and distribution through the use of EDI and other automation that have increased our productivity and enabled us to maintain profitability. TechXtend segment gross profit margin for the nine months ended September 30, 2017 was 12.2%, compared to 10.3% for the same period in 2016. The increase in gross profit margin was due to a decrease in larger enterprise and public sector sales. Sales of large enterprise licenses and related equipment typically carry a lower gross profit margin, and lower incremental selling and administrative costs as a percentage of revenue, than smaller account sales.

Vendor rebates and discounts for the nine months ended September 30, 2017 were $1.6 million compared to $1.5 million in the same period last year. Vendor rebates are dependent on reaching certain targets set by our vendors. The Company monitors vendor rebate levels, competitive pricing, and gross profit margins carefully. We anticipate that price competition in our market will continue in both of our business segments.

Selling, General and Administrative Expenses

SG&A expenses for the nine months ended September 30, 2017 increased $0.7 million or 5% to $14.3 million, compared to $13.6 million for the same period in 2016. The increase is due primarily to increased employee related expenses (salaries, and commissions) to support our growth. SG&A expenses were 4.4% of net sales for the nine months ended September 30, 2017, compared to 4.6% for the same period in 2016.

The Company expects that its SG&A expenses, as a percentage of net sales, may vary depending on changes in sales volume, as well as the levels of continuing investments in key growth initiatives. We plan to continue to expand our investment in information technology and marketing, while monitoring SG&A expenses closely.

Income Taxes

For the nine months ended September 30, 2017, the Company recorded a provision for income taxes of $1.9 million or 32.2% of income, compared to $2.0 million or 34.1% of income for the same period in 2016. The decrease in the effective tax rate is due primarily to the change in tax effects related to share-based payments at settlement (or expiration) through the income statement due to the adoption of ASU 2016-09.

Liquidity and Capital Resources

Our cash and cash equivalents decreased by $9.5 million to $4.1 million at September 30, 2017 from $13.5 million at December 31, 2016, and borrowings under our credit facility increased from $0 to $2.0 million during the same period. The use of cash was primarily due to working capital investments to support the growth of our business, and utilization of cash used for stock repurchases and dividends. The increase in working capital related to increased payment terms for certain accounts and vendor prepayments for inventory purchases.

Net cash used by operating activities for the nine months ended September 30, 2017 was $6.4 million, comprised of net income adjusted for non-cash items of $5.4 million, offset by cash used in changes in operating assets and liabilities of $11.8 million.

The increase in cash used in changes in operating assets and liabilities in 2017 was primarily due to an increase in net working capital (accounts receivable, inventory, and vendor prepayments less accounts payable) required to support our business. The increased working capital requirement is primarily driven by increased sales levels and extended payment terms sales during the fourth quarter of 2016, and a vendor prepayment of approximately $8.0 million as part of a distribution agreement. Our accounts receivable – long term increased by approximately $6.2 million during the fourth quarter of 2016 due to a higher level of extended payment term sales. The products related to these sales were paid for in the first quarter of 2017, while sales proceeds will be collected over future periods.

In the nine months ended September 30, 2017, net cash used in investing activities was $0.3 million, compared to $0.8 million in the prior year.

Net cash used in financing activities for the nine months ended September 30, 2017 of $3.1 million was comprised of $2.3 million of dividend payments on our Common Stock, and $2.8 million for the stock repurchases less $2.0 of net borrowings under our credit facility.

On January 4, 2013. the Company entered into a $10,000,000 revolving credit facility (the "Credit Facility") with Citibank, N.A. ("Citibank") pursuant to a Business Loan Agreement, Promissory Note (the "Note"), Commercial Security Agreements and Commercial Pledge Agreement (the "Pledge Agreement"). The Credit Facility, which is intended to be used for business and working capital purposes, including financing of larger extended payment terms sales transactions which may become a more significant portion of the Company's net sales. On December 18, 2015, the Company signed an extension to this agreement, which extended the maturity date to January 31, 2019 with all other terms remaining the same (See Note 8 in the Notes to our Condensed Consolidated Financial Statements). As of September 30, 2017, outstanding borrowings of $2.0 million were outstanding under the Credit Facility.

We anticipate that our working capital needs will increase as we invest in the growth of our business. We believe that the funds held in cash and cash equivalents and our unused borrowings under our credit facility will be sufficient to fund our working capital and cash requirements for at least the next 12 months.

Contractual Obligations as of September 30, 2017 are summarized as follows: (000's)

Payment due by Period	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Operating Leases obligations (1)	$ 4,371	$ 531	$ 1,316	$ 834	$ 1,690
Total Contractual Obligations	$ 4,371	$ 531	$ 1,316	$ 834	$ 1,690

(1) Operating leases relate primarily to the leases of the space used for our operations in Eatontown, New Jersey, Mesa Arizona, Mississauga, Canada and Amsterdam, Netherlands. The commitments for operating leases include the minimum rent payments.

As of September 30, 2017, the Company had $2.0 million outstanding under our lines of credit and no commitments relating to standby letters of credit, and has no standby repurchase obligations or other commercial commitments (see Note 8 in the Notes to our Consolidated Financial Statements).

Foreign Exchange

The Company's foreign subsidiaries are subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. We are subject to fluctuations primarily in the Canadian Dollar and the Euro Dollar to-U.S. Dollar exchange rate.

Off-Balance Sheet Arrangements

As of September 30, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In addition to its activities in the United States, 10.8% of the Company sales during the nine months ended September 30, 2017 were generated by its subsidiaries in Canada and Europe. We are subject to general risks attendant to the conduct of business in Canada and Europe, including economic uncertainties and foreign government regulations. In addition, the Company's international business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. See *"Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Foreign Exchange."*

The Company's cash balance is invested in short-term savings accounts with our primary banks, Citibank, and JPMorgan Chase Bank. As such, we believe that the risk of significant changes in the value of our cash invested is minimal.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures", as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of various members of our management, including our Company's President, Chairman of the Board and Chief Executive Officer (principal executive officer), Vice President and Chief Financial Officer (principal financial officer), and Vice President and Chief Accounting Officer (principal accounting officer). Based upon that evaluation, we have identified a material weakness in our controls over financial reporting that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer , Chief Financial Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on the material weakness described below the Company's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that the Company's disclosure controls and procedures were not effective, as of the end of the period covered by this report. A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The weakness we identified relates to the adoption and application of technical accounting guidance. While performing a review of our accounting policies in preparation of our quarterly report, we determined that we did not properly apply certain accounting principles regarding the treatment of unvested restricted stock as participating securities in our earnings per share calculation in prior periods. Although management determined that the error had an immaterial impact, quantitatively and qualitatively, on the Company's previously issued financial statements, we concluded that it is appropriate to re-state previously reported amounts when presented on a comparative basis with the current period. We've also concluded that the error, had it gone undetected, could have resulted in a material misstatement in our financial statements. We currently are assessing our controls over the interpretation and adoption of authoritative and new accounting guidance to remediate the weakness.

Changes in Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act, that occurred during the quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth the repurchase of Common Stock by the Company and its affiliated purchasers during the third quarter of 2017.

ISSUER PURCHASE OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid Per Share (3)	Maximum Number of Shares That May Yet Be Purhased Under the Plans or Programs (4)(6)
July 1, 2017- July 31, 2017	6,717	$ 17.94	6,717	$ 17.94	561,716
August 1, 2017- August 31, 2017	16,674 (1)	$ 17.15	9,478	$ 17.26	552,238
September 1, 2017- September 30, 2017	4,250	$ 13.76	4,250	$ 13.76	547,988
Total	27,641	$ 16.82	20,445	$ 17.54	547,988

(1) Includes 7,196 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of Restricted Stock. These shares are not included in the Common Stock repurchase program referred to in footnote (4) below.

(2) Average price paid per share reflects the closing price the Company's Common Stock on the business date the shares were surrendered by the employee stockholder to satisfy individual tax withholding obligations upon vesting of Restricted Stock or the price of the Common Stock paid on the open market purchase, as applicable.

(3) Average price paid per share reflects the price of the Company's Common Stock purchased on the open market.

(4) On December 3, 2014, the Board of Directors of the Company approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. On February 2, 2017, the Board of Directors of the Company approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. The Company expects to purchase shares of its Common Stock from time to time in the market or otherwise subject to market conditions. The Common Stock repurchase program does not have an expiration date.

(5) On July 27, 2016, the Board of Directors of the Company approved, and on September 1, 2016, the Company entered into, a written purchase plan intended to comply with the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "September Plan"). Purchases involving shares of the Company's Common Stock under the September Plan may take place commencing September 1, 2016, and was in effect until February 28, 2017. Pursuant to the Plan, the Company's broker shall effect purchases of up to an aggregate of 325,000 shares of Common Stock.

(6) On February 2, 2017, the Board of Directors of the Company approved, and on March 1, 2017, the Company entered into, a written purchase plan intended to comply with the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Plan"). Purchases involving shares of the Company's Common Stock under the Plan may take place commencing March 1, 2017, and was in effect until September 30, 2017. Pursuant to the Plan, the Company's broker shall effect purchases of up to an aggregate of 600,000 shares of Common Stock.

Item 6. Exhibits

(a) Exhibits

31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Simon F. Nynens, the Chairman of the Board, President and Chief Executive Officer (principal executive officer) of the Company.

31.2 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Kevin T. Scull, the Vice President and Chief Accounting Officer (principal accounting officer) of the Company.

31.3 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Michael Vesey, the Vice President and Chief Financial Officer (principal financial officer) of the Company.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Simon F. Nynens, the Chairman of the Board, President and Chief Executive Officer (principal executive officer) of the Company.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Kevin T. Scull, the Vice President and Chief Accounting Officer (principal accounting officer) of the Company.

32.3 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Michael Vesey, the Vice President and Chief Financial Officer (principal financial officer) of the Company.

101 The following financial information from Wayside Technology Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed with the SEC on November 9, 2017, formatted in XBRL (Extensible Business Reporting Language) includes: (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Earnings, (3) Condensed Consolidated Statements of Stockholders' Equity, (4) Condensed Consolidated Statements of Comprehensive Income, (5) Condensed Consolidated Statements of Cash Flows, and (6) the Notes to the Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WAYSIDE TECHNOLOGY GROUP, INC

11/9/2017	By:/s/ Simon F. Nynens
Date	Simon F. Nynens, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
11/9/2017	By:/s/ Michael Vesey
Date	Michael Vesey, Vice President and Chief Financial Officer (Principal Financial Officer)
11/9//2017	By:/s/ Kevin T. Scull
Date	Kevin T. Scull, Vice President and Chief Accounting Officer (Principal Accounting Officer)